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COMMITTEE ON FINANCIAL SERVICES

HEARING TO RECEIVE TESTIMONY of the CHAIRMAN, BEN BERNANKE,

OF THE FEDERAL RESERVE BOARD OF GOVERNORS

THURSDAY, FEBRUARY 15, 2007

Good morning. Mr. Chairman and ladies and gentlemen, it has been exactly one year since we first heard from the then-new Chairman of the Federal Reserve Board of Governors, Ben Bernanke. Mr. Bernanke, I want to congratulate you on this milestone and thank you for your willingness to work closely with the Members of the Committee on Financial Services. Indeed, I have watched you during this first year of your tenure as the Chairman of the Fed and have been most interested in your ideas about income inequality, investment in education, community investment and other economic issues.

As you know, when you appeared before the Committee in July 2006 to present your midyear report to Congress, you identified three issues that you felt could influence the economy—energy prices, stagnation of the housing market and resources utilization. In July 2006, the price of a barrel of oil was $ 78.00, representing a 30 percent increase from six months earlier when oil was $55.00. The current price of oil is approximately $59.00 per barrel, but oil price volatility must be factored into any predictions about the future of the U.S. economy. The U.S housing market has slowed considerably. Scarce resources are being stretched even thinner because of worldwide demand for those resources, led by China, India and other growth economies. Chairman Bernanke, you were undoubtedly correct in identifying the three issues that would impact the U.S. economy moving forward. And here we are six months later with what could be the beginning stages of a major slowdown in the U.S. economy because housing is no longer robust, oil prices are likely to increase, and resources are not unlimited. Something has to give, and maybe it is the end of the ride for this economic growth cycle.

It has been more than five years since the expansion began in November 2001, and working Americans are still waiting for their share. According to some reports, “the economy is showing remarkable parallels to the situation of a decade ago.” The first five years of the expansion in the

1990s brought with it record corporate profits, a robust stock market, and increased wealth for the very few. That expansion would ultimately last for ten years.

Wage increases have been almost nonexistent for the American worker. In December 2006, five years after the economy started to grow, the wages of the American worker were approximately 1.7 percent higher, adjusted for inflation, than when the economy sank in November of 2001. Most of the gains experienced by workers were realized in the last few months of that expansion. In April 1996, five years after that expansion, wages were actually worth four tenths of a percent less than when the expansion began. In addition, we have to take into account that productivity growth for 2006 was 2.1 percent and has not been that low since 1997. These two indicators might suggest to some that we are in for along ride unless you believe that we will have five uninterrupted years of growth in both productivity and wages.

These economic indicators tell us a lot about why there is growing income inequality in the U.S. I am afraid that if the economy continues to turn in the opposite direction from where it has been these last five years, income inequality will increase. As income inequality grows, we will see more people slip into poverty, while unemployment will add to the economic woes of the already strapped American worker.

Finally, Chairman Bernanke, I am really interested in the policy debate around the U.S. trade imbalance. We have had a trade imbalance for the last five years. Just two days ago we learned that the trade deficit of $763.3 billion for 2006 - a 6.5 percent increase over 2005 - is the largest in our history. Imported oil and vast amounts of consumer goods from China and other major importers account for the large part of the U.S. trade imbalance. We hear that trade deals are good and that trade deals are bad.

Whatever view you accept, it is clear that U. S. exports are not substantial enough to offset the imbalance, although we increased exports over last year by 13 percent. Of course, we know that the Administration is pro-Free Trade and believes that the loss of American jobs is solely a result of technology, rather than to flood of inexpensive goods coming into the country from abroad. Unemployment is extremely high in communities affected by the loss of manufacturing jobs. Some of the unemployment is intractable, and many of the unemployed for years instead on months.

As Chairman now for one year, what can you tell us about the role of the Federal Reserve in addressing these problems? Is it just a matter of monetary and fiscal policy, or are is there a real policy fix for the problems that we are facing in the US? What will we experience if the current expansion has come to an end and growth slows? Once again, I am extremely pleased to be able to hear your views and prescriptions for our economy, particularly the neglected segments of the population --- the poor, the unemployed and underemployed. Many of these people missed out on the benefits of the recent expansion. Thank you.